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The Role of Commercial Banks in Financing and Developing Small and Medium Enterprises in Nigeria

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ABSTRACT: The study encompasses the roles and contributions of small andmedium scale industries in the Nigerian economy from 1999-2012. Thebasis of covering this period is to ascertain whether there havebeen any significant impacts of small and medium scale industries on the Nigerian economy and commercial banks' contribution in financing SMEs. This study does not consider large-scale industries.The variables used in this survey consisted of an independent and dependent variable. The independent variable studied commercial banks' role in financing and developing small and medium enterprises in Nigeria. The developing small and medium enterprises' antecedents make up the dependent variable. The study concluded that there is no significant relationship between SMEs' Share in GDP (₦'m) and Total Loan Granted to SMEs by Commercial Banks (₦'m). Therefore, it is recommended that Microfinance Banks (MFBs) increase the duration of asset loans given to Small and Medium Scale enterprises, spread the repayment over a more extended time, or increase the moratorium. This will help clients have greater loan use over a more extended period to acquire capital assets and technology.

KEYWORDS: SME,COMMERCIAL BANK,GDP

I. INTRODUCTION

Overtime, small & medium size enterprises had received little attention. In contrast, they employ a vast and diverse number of people engaged in large-scale manufacturing and play their roles,which is crucial to our developing economy. It also constitutes 97.2% of Nigeria's companies, indicating its essential role in Nigeria's economic growth (Broon and Longnecker 2009). There have been numerous opinions, and write-ups on the roles banks should play in financing and advising small and medium-sized enterprises.Since the federal government shift in policy with a greater emphasis on small & medium enterprises'self-reliance achievement (Aiden, 2013). Small and Medium Enterprises (SMEs) have been recognized as a driving force for economic growth and development in any nation. Empirical evidence has shown that they contribute to employment, poverty alleviation, and increased productivity levels in a nation. In recognition of SMEs' role in Nigeria's economic growth process, the government has made concerted efforts to foster SMEs' growth and develop entrepreneurship. Small and Medium Enterprises (SMEs) are of necessity to a nation's industrialization process. One primary way of promoting Small and Medium Enterprises (SMEs) is by having easy access to finance (Klade, 2009).

SMEs are a heterogeneous group, and SMEs owners may or may not be lacking. Some are dynamic, growth-oriented, and innovative, while others are not; they prefer to remain small and continue as usual. In some countries, SMEs owner and workers are (or are perceived to be) dominated by a member of particular ethnic groups (Hallberg, 2010).

The era of the 1980s can be said to be the golden years of SMEs in Nigeria. Those were the Nigerian Industrial Development Bank Ltd (NIDB) years and the Nigerian Bank for Commerce and Industry (NBCI). They were Federal Government Development Banks dedicated explicitly to developing SMEs (Aggarwal, Klapper, and Singer, D. 2012).

Small and medium-sized enterprises (SMEs) are non-subsidiary, independent firms that employ less than a given number of employees.

This number varies across countries. The most frequent upper limit designating an SME is 250 employees, as in the European Union. However, some countries set the limit at 200 employees, while the United States considers SMEs to include fewer than 500 employees. However, in Nigeria, the Central Bank of Nigeria defines small and medium enterprises according to the asset base and staff. The criteria are an asset base between N5 million to N500 million and a staff strength between 11 and 100 employees (Aggarwal, Klapper, and Singer, D. 2012).

Afolabi (2013) noted that a significant gap in Nigeria's industrial development process in the past years had been the absence of a healthy and well-structured Small and Medium Enterprises (SMEs) sector attributable to its reluctance banks,primarily commercial banks, to lend to the sector. Commercial banks, through their intermediation role, are meant to provide financial succour to SMEs. For Small and Medium Enterprises (SMEs) to perform their role in the economy, they need adequate funds in short- and long-term loans (Olachosim, Onwuchekwa and Ifeanyi, 2013). It is pertinent to know that financing strength is the primary determinant of small and medium enterprises' growth in developing countries. There is no gainsaying that finance would boost the performance of SMEs if adequately and optimally utilized. The financial systems in every country play a vital role in the development and growth of the economy. However, the ability to play this role effectively largely depends on the financial system's degree of development. The traditional commercial banks that are critical players in nearly every economy's financial systems can pull financial resources together to meet Small and Medium Enterprises (SMEs).

Despite the catalytic role of Small and Medium Enterprises (SMEs) in countries' economic emancipation, some of their significant operational challenges in Nigeria include financial problems. About 80% of small and medium enterprises are stifled because of low financing (Aiden, 2013). This research intends to appraise commercial banks' impacton Small and Medium Enterprises' financing in Nigeria.

II. PROBLEM STATEMENT

Lack of education on the part of Small and Medium Enterprises (SMEs) owners and inadequate facilities in agricultural, purchasing and supply sector has been a big challenge to SME's (Ukwuagu 2002). Onwuka (2015) saw the problem facing SMEs as inadequate funding on the part of the commercial banks and other financial institutions and poor management on the part of small business owners. On the other hand, the government has failed to provide a stable macro-economic environment and adequate physical infrastructural facilities to the Small and Medium Enterprises (SMEs). The study will identify SMEs' various problems in the procurement of loans from commercial banks, commercial banks' contributions to SMEs, and SMEs' contributions to Nigeria's economic growth and development. These and many other reasons prompted us to embark on the course to study commercial banks' role in financing small and medium enterprises in Ikeja computer village technology hub Lagos State, Nigeria.

Objectives of The Study

This study's primary purpose is to examine commercial banks' role in financing and developing small and medium enterprises in Nigeria. The specific objectives are to:

i. Examine the trend in commercial banking financing to SMEs in Nigeria from 1999 to 2012.
ii. Examine the trend in SMEs contribution to GDP in Nigeria from 1999 to 2012
iii. Identify the level of contribution of small and medium-size industries towards Nigeria's economic growth and development.

III. LITERATURE REVIEW

A lot has been reviewed in terms of financing activities of various deposit money banks. Some opinions and investigations focused on the factors responsible for banks' willingness to extend credit to some key sectors of the economy and the impact of such credits on the aggregate economy. Simultaneously, some discussed the effect of such extension of credits to some specific sectors of the economy such as Agricultural, SME and other sectors. Hence, the outcomes of some of these studies are briefly discussed and analyzed in this section.

According to Onyeiwu (2012), in examining SMEs' effect on Nigeria's economic growth. In doing this, the Ordinary Least Squares Method (OLS), Error Correction and Parsimonious models were used to analyze the quarterly data between 1994 and 2008. The empirical result showed that loans to SMEs and other variables except for money supply and deficit financing positively impact GDP growth. Thus, the study recommends that the government find a way to encourage financial institutions to lend to SMEs to guarantee their development.

Alalade et al. (2013) also examined the relationship and causality between microfinance bank operations and entrepreneurship development in Ogun State, Nigeria. The study adopted the survey research design and questionnaires to collect the data. The study revealed no significant impact of microfinance bank operations on entrepreneurial development in the State. Therefore, they recommended that the government find an avenue for creating awareness on how entrepreneurs can benefit from bank loans.

Imoughele and Ismaila (2013) also investigated the impact of commercial bank credit accessibility and sectoral output performance in the Nigerian economy between 1986 and 2011. An augmented growth model was estimated via the ordinary least square (OLS) techniques. The result found that the various commercial bank credit supply has a long-run relationship with Nigeria's sectoral output performance.

Afolabi (2013) also investigated SMEs' growth effect in Nigeria; the study employed the ordinary least square (OLS) method to estimate the multiple regression model. The result revealed that SMEs output proxy by wholesale and retail trade output as a component of GDP, commercial banks credit to SMEs and exchange rate of naira vis-à-vis U.S dollar exert a positive influence on economic development proxy real GDP. In contrast,the lending rate is found to exert adverse effects on economic growth. In terms of partial significance and using t-statistic as a test of evaluation, SMEs' output and commercial banks' credit to SMEs were significant factors enhancing Nigeria's economic growth at a 5% critical level. Therefore, the study proffered that the central authority should create an enabling environment for SME development.

Duru and Lawal (2012) accessed the impact of financial sector reforms on small-scale enterprises in Nigeria. The paper used a modelling method to determine SMEs' output performance as a function of several inputs such as the firm's characteristics, the firm's ownership, and credit facilities through the financial sector. The results indicate that all these variables positively and significantly impact SMEs' growth in Nigeria. Thus, the study concluded that financial sector reforms positively impact SMEs' growth in Nigeria and recommended that the government create an enabling environment by providing infrastructural facilities and security to ease the economy's cost of doing business.

Similarly, Nwosa and Oseni (2013) also empirically examined the impact of bank loanson SMEs' manufacturing output in Nigeria from 1992 to 2010. The study employed an error correction modelling technique and observed that banks loan to the SME sector had a significant impact on manufacturing output both in the long-run and short-run. Based on their findings, they suggest the need for greater deliberation and conscious effort by the government in ensuring that loans are given to ultimate users- the SMEs.

Furthermore, Samson and Abass (2012) examined banks' deposit money's rolein the Nigerian economy's growth. The study was based on time series, which covered 1974 to 2010. The co-integration and error correction model and structural analysis were used, ADF and PP were also adopted to test the unit root. The result revealed that there exists a long-run relationship between economic growth and commercial bank credit measures. Therefore, they advocated for policies that increase the gross domestic product through the financial sector, such as increased banks deposit liability, low-interest rate and high liquidity ratio.

Lastly, Abiola et al. (2011) investigated microfinance contributions to micro, small and medium enterprises in Lagos and Ogun states, Nigeria. The research was design to combined primary and secondary sources of data. The data obtained were analyzed using a one-sample t-test, Pearson correlation coefficient analysis and multiple regression techniques.

The result revealed a low positive correlation between microloan received by entrepreneurs and MSMEs' business expansion capacity in Nigeria. It was also revealed that the non-financial services rendered by microfinance banks enhance MSMEs' business performance. In contrast, the financial services, particularly the asset loan size, asset loan duration and asset loan repayment method,cannot enhance MSMEs business growth. Therefore, the study recommended that Microfinance Banks(MFBs) increase the duration of asset loans given to the client, spread the repayment over a more extended period, or increase the moratorium. This, they opined, will enable the clients to have greater use of the loan over a more extended period to acquire capital assets and technology.

IV. METHODOLOGY

The variables used in this survey consisted of an independent and dependent variable. The independent variable studies commercial banks' role in financing and developing small and medium enterprises in Nigeria. Developing small and medium enterprises antecedents makes up the dependent variable that wasanalyzed.

I. The model is implicitly specified as follows;

Y = f(x)

Y= commercial bank financing

X = developing small and medium

this was used to analyze information gotten under objectives 1 to 3 for the research work, using frequency and simple percentage and trend graphs.

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Inferential Statistics

Makes inferences about populations using data drawn from the population. Instead of using the entire population to gather the data, we will collect a sample or samples from the millions of residents and make inferences about the entire population using the sample for this study. The inferential statistics that will be used include:-, Regression, Pearson Correlation and Scatter plot Diagram.

a) **Regression analysis:-**The regression analysis was used to measure primary school enrolment as perceived into a model equation.The model is implicitly specified as follows;

Y = f(x)

Y= commercial bank financing

X = developing small and medium

b) **Pearson Correlation analysis**:- The correlation is used to test for the hypothesis which the decision rule

Ho3: There is no significant relationship between GDP and SMEs

TEST STATISTIC= Pearson Correlation

LEVEL OF SIGNIFICANCE (α) = 0.01 (1%)

LEVEL OF CONFIDENCE= 0.99 (99%)

DECISION RULE = Reject H_0 IF P-value < α

Chi-Square Analysis: - The chi-square analysis is used to test for the hypothesis which the decision rule is:-

H_o=Null Hypothesis

H_1=Alternative Hypothesis

Ho1: commercial banking financing has no significant effect on SMEs development

Ho2: SMEs has no significant effect of Gross Domestic Product

TEST STATISTIC= Chi-Square

LEVEL OF SIGNIFICANCE (α) = 0.05 (5%)

LEVEL OF CONFIDENCE= 0.95 (95%)

DECISION RULE = Reject H_0 IF P value < α

d) **Scatter Plot Diagram**:- The scatter plot is used to test if the Independent Variable has a significant effect on the Dependent Variable, and this is confirmed when R^2>0.5, which implies goodness of fit, i.e. explanatory variable explain more than 50% of the explained variable (dependent variable).

V. VANALYSISRESULT PRESENTATION

Year	SMEs' Share in GDP (₦m)	Total Loan Granted to SMEs by Commercial Banks (₦m)
1982	7890.70	206.70
1983	5549.40	351.30
1984	4926.20	705.70
1985	5903.50	927.20
1986	5673.90	3587.30
1987	5963.20	1445.30
1988	6729.50	5090.00
1989	6840.20	5789.50
1990	7371.40	5900.00
1991	8046.00	7572.30
1992	7657.20	20400.0
1993	7341.00	15462.9
1994	7280.00	20552.5
1995	6880.00	32374.5
1996	6940.00	42302.1
1997	6960.00	40844.3
1998	6980.00	42260.7
1999	7330.00	46824.0
2000	7180.00	44542.3
2001	7480.00	52428.4
2002	507836.82	82368.4
2003	465811.68	90176.5
2004	349316.32	54981.2
2005	408367.52	50672.6

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Correlations before

		SMEs' Share in GDP (N'm)	Total Loan Granted to SMEs by Commercial Banks (N'm)
SMEs' Share in GDP (N'm)	Pearson Correlation	1	.740**
	Sig. (2-tailed)		.000
	N	24	24
Total Loan Granted to SMEs by Commercial Banks (N'm)	Pearson Correlation	.740**	1
	Sig. (2-tailed)	.000	
	N	24	24

The Calculated Value for the Pearson correlation is 0.740, which implies a positive and strong correlation between SMEs' Share in GDP (₦'m) and Total Loan Granted to SMEs by Commercial Banks (₦'m). There is a significant and positive relationship between them; the value of the significant level is 0.000, which is less than the table value 0f 0.05; based on this, the null hypothesis will be rejected, and the alternate hypothesis will be retained**.** Hence, it can be concluded that there is a significant relationship between SMEs' Share in GDP (₦'m) and Total Loan Granted to SMEs by Commercial Banks (₦'m)

The goodness of Fit Test (R^2): From the result obtained in the scatter plot, R^2 is 0.548 showing a goodness of fit of 54.8% because the explanatory variable explains 54.8% of the explained or dependent Variable (SMEs' Share in GDP), which is a little above average

Coefficient of Determination (R^2)

From the result, the coefficient of determination $R^{2,}$ which is 0.548, shows that the explanatory variables adequately explained the dependent variable's behaviour (SMEs' Share in GDP). The result shows that approximately 54.8% of the variation in the dependent variable. They are explained by the independent Variable (Total Loan Granted to SME's by Commercial Banks), which shows a high correlation and relationship between the dependent and the independent variable.

AFTER

Year	SMEs' Share in GDP (₦'m)	Total Loan Granted to SMEs by Commercial Banks (₦'m)
2006	478524.14	25713.7
2007	520883.03	41100.4
2008	585573.04	13512.2
2009	612308.89	16366.5
2010	643070.22	12550.3
2011	694814.15	15611.7
2012	761467.00	13863.5

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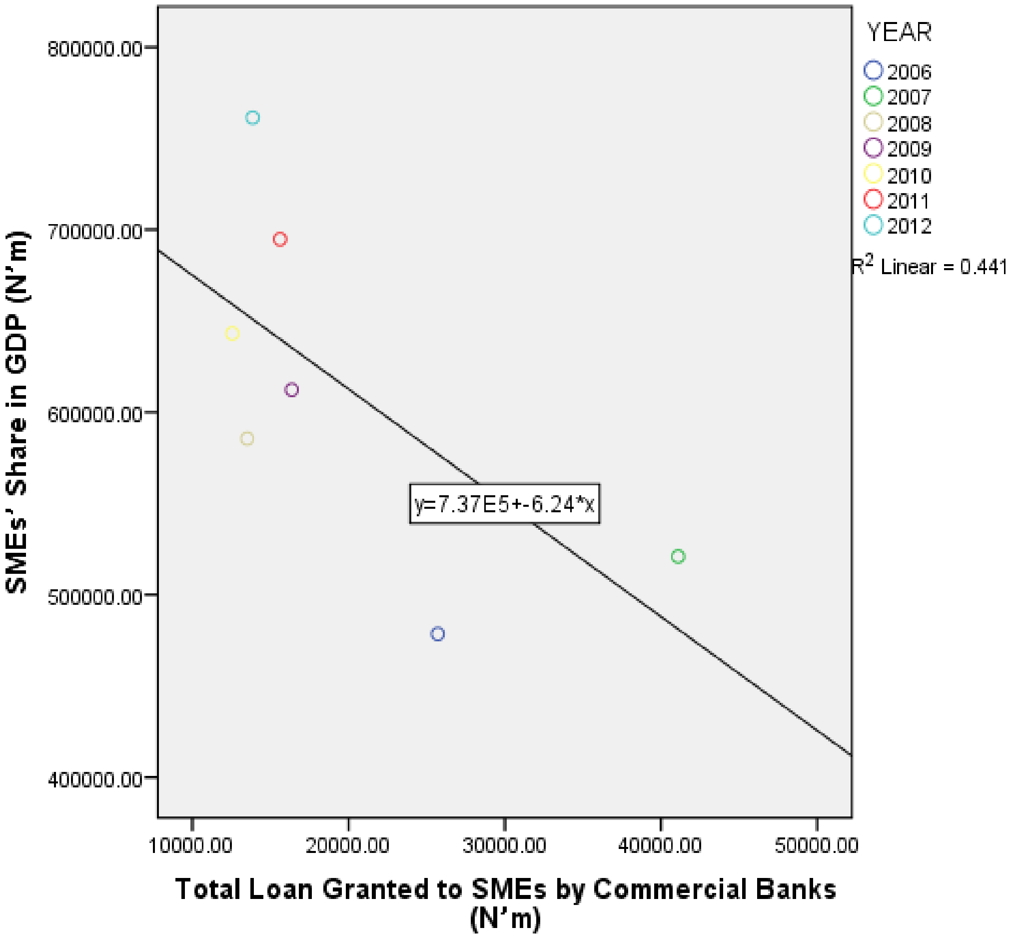
Correlations FOR AFTER

		SMEs' Share in GDP (N'm)	Total Loan Granted to SMEs by Commercial Banks (N'm)
SMEs' Share in GDP (N'm)	Pearson Correlation	1	-.664
	Sig. (2-tailed)		.104
	N	7	7
Total Loan Granted to SMEs by Commercial Banks (N'm)	Pearson Correlation	-.664	1
	Sig. (2-tailed)	.104	
	N	7	7



VI. CONCLUSION

The calculated value for the Pearson correlation is -0.664, which implies that there is anegative correlation between SMEs' Share in GDP (₦'m) and Total Loan Granted to SMEs by Commercial Banks (₦'m). There is a high but negative relationship between them while the value of the significant level is 0.104, which is less than the table value of 0.05; based on this, the null hypothesis will be retained. Hence, it can be concluded that there is no significant relationship between SMEs' Share in GDP (₦'m) and Total Loan Granted to SMEs by Commercial Banks (₦'m).

The Goodness of Fit Test (R^2): From the result obtained in the scatter plot, R^2 is 0.441, showing a goodness of fit of 44.1% because the explanatory variable explains 44.1% of the dependent Variable (SMEs' Share in GDP), which is a little below average.

VII. RECOMMENDATION

Therefore, the study recommended that Microfinance Banks (MFBs) increase the duration of asset loans given to Small and medium-scale enterprises, spread the repayment over a more extended period, or increase the moratorium. This, they opined will enable the clients to have greater use of the loan over a more extended period to acquire capital assets and technology.

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